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Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 EB-07 CIEP-01 TRSE-00 STR-04 OMB-01

CEA-01 COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01

IO-11 /119 W
---------- 050639
R 171340Z MAR 76
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 1036
INFO AMEMBASSY ABU DHABI
AMEMBASSY BONN
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY PARIS
AMEMBASSY TEHRAN
AMEMBASSY TOKYO

C O N F I D E N T I A L CAIRO 3484

EO 11652: GDS
TAGS: USEGJC EAID IMF
SUBJECT: ASSISTANCE TO EGYPT: IMF STANDBY

REF: CAIRO 3256 (NOTAL)

1. ALTHOUGH AGREEMENT IN PRINCIPLE HAS BEEN REACHED, IMF STANDBY IS STILL CONTINGENT UPON CONSIDERABLE NUMBER OF ACTIONS REMAINING TO BE TAKEN BY GOE. IMF REPS ARE UNDERSTANDABLY LESS WILLING TO DISCUSS DETAILS NOW THAT AGREEMENT IS STRONG POSSIBILITY, AND GOE OFFICIALS ARE ALSO SOMEWHAT COY, BUT FOLLOWING INFORMATION HAS BEEN PIECED TOGETHER.

2. KEY REQUIREMENT, IN TERMS OF EFFORT INVOLVED (UNLIKE
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OTHER STEPS, IT CANNOT BE DONE BY SIMPLE MINISTERIAL

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UKASE) IS EVIDENTLY PEOPLE'S ASSEMBLY PASSAGE OF NEW
LAW LIBERALIZING OWNERSHIP AND CONTROL OF FOREIGN EXCHANGE
BY PRIVATE CITIZENS AND COMPANIES (CAIRO 3033). DETAILS
OF PROPOSED LEGISLATION, ALREADY APPROVED BY CABINET,
ARE NOT YET CLAR.

3. ADDITIONAL MEASURES INCLUDE REDUCTION IN GOVERNMENT
BORROWING FROM BANKING SECTOR, REDUCTION IN SUBSIDIES,
RATIONALIZATION OF PRICING SYSTEM WITHIN PUBLIC SECTOR
(BUT ALLOWING FOR CURRENT INVENTORIES TO BE DRAWN BEFORE
MAJOR CHANGES ARE IMPLEMENTED), CEILINGS ON BANKING
FACILITIES AND GOE BUDGETS, ETC.

4. SCENARIO CALLS FOR IMF TEAM TO RETURN TO CAIRO IN
MIDDLE OF MAY FOR ASSESSMENT OF PROGRESS BEING MADE.
LETTER OF INTENT TO IMF WILL THEN BE PREPARED AND PRESENTED
TO EXECUTIVE BOARD. IF ALL GOES WELL, STANDBY OF SOME
SDR 100 MILLION PLUS WOULD BE AVAILABLE BEFORE END OF JUNE.

5. COMMENT: BY EGYPTIAN STANDARDS, THE MONEY ISN'T VERY
MUCH, PARTICULARLY WHEN MEASURED AGAINST THE INTERNAL
UPHEAVALS THAT ARE REQUIRED. THIS HAS BEEN PRINCIPAL
REASON THAT IMF PROPOSALS IN PAST HAVE BEEN REJECTED.
NOW THAT ARABS HAVE REPORTEDLY MADE IT CLEAR THEIR MONEY
IS AVAILABLE CONDITIONAL UPON EGYPTIAN EFFORTS TO GET
ECONOMIC HOUSE IN ORDER, AND IMF STANDBY IS A MAJOR
STEP IN THAT DIRECTION, CARROT IS APPARENTLY BIG ENOUGH.
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